

Quarterly Newsletter

4th Quarter - 2009

Market Overview:

The markets continued their steady march upwards to close out the year in fine style. You can almost sense the relief of investors after the beating suffered in 2008. While I am not sure if we are out of the woods, I do share a small sense of relief that our economy has stabilized. While I recognize that our nation and world have replaced a few unsustainable activities with new equally unsustainable activities, I still think that *something* was indeed needed to bridge the gap as our economy begins to reduce its debt levels. The next years will be choppy, but hopefully we will not experience the panic of the past year again in the near future. As always, regardless of the economic climate, I think our investments on average will profit over an extended period.

On the subject of profitable investments, I thought I should mention that I recently proposed to my girlfriend. She said yes, and I will be getting married next summer. I believe this will be my best investment yet! ☺ Now back to business...

Below is a table designed to summarize the most recent returns for some key investment markets compared to the Remick Capital account composite. The *Wilshire 5000* represents the aggregate US stock market, the *MSCI World* represents the entire developed world stock market excluding the US, and the *Lehman Aggregate Bond* is a representation of the entire US Bond market. These market indices are listed so you can keep your own portfolio performance in perspective.

Returns* ended 12/31/2009:	1 Qtr Return	1 Year Return	3 Year Return (annualized)
Wilshire 5000 Index (Ticker: VTI)	+5.86%	+28.79%	-4.87%
MSCI World Index (Ticker: EFA)	+2.01%	+31.09%	-6.12%
Lehman Aggregate Bond Index (Ticker: AGG)	-0.40%	+4.74%	+5.73%
Remick Capital (Account Composite)	+6.88%	+88.46%	N/A

Below I have highlighted the [three major goals](#) I always strive to achieve for Remick Capital accounts as well as a delineation of my performance towards these goals. As these are long term goals (3-5+ years), clients should judge my performance over time based on the criteria below:

Remick Capital Investment Objectives:	1 Year	Since Inception
#1: Don't Lose Money	Pass	Pass
#2: Outperform US Stock Market	Pass	Pass
#3: Provide Clients with a Real Return of 10%	Pass	Pass

As always, please note that the performance results of the recent past (whether good or bad) should never be forecasted into the future. With that said, while it has been (and will likely continue to be) a very volatile ride, I am confident that over time the table above will continue to show more green than red and our accounts will continue to outperform the market averages, albeit by a smaller magnitude, in the future. Thank you for coming along for the ride.

* The [Wilshire 5000 Index](#) is a collection of stocks that is designed to approximate the returns of the entire US Stock Market.
 The [MSCI World Index](#) is a collection of stocks that is designed to approximate the returns of the global stock market with US stocks removed.
 The [Lehman Aggregate Bond Index](#) is a collection of bonds that is designed to approximate the returns of the entire US Bond market.
 All above returns are based on Exchange Traded Fund (ETF) market returns to make the numbers representative of actual investor returns.
 For Remick Capital performance data please see our [performance disclosure](#) document for the basis of results.

Given that the investments we hold are quite a bit different (on average) from the composition of the market, I thought it might be instructive to capture some statistics about our holdings with respect to the market. I captured this comparison one year ago (see the [Q4 2008 letter](#) for more detail), and I thought I would make it a year-end tradition. I have done my best to keep this table condensed, while also explaining terms so you do not feel as though you are reading a finance textbook. As always, please note that for accounts with under \$100,000 in assets the concentration levels, individual holdings, and returns will all vary (perhaps quite widely) from the Remick Capital account composite.

As disclosed in my company overview [document](#) I believe the best way to approach investing is to pick a small group of the best and cheapest investments available. For this reason, our portfolios will rarely (if ever) resemble 'the market.' The table below shows how our accounts match up against the market averages on a few metrics. These metrics will be constantly changing, but this table gives a snapshot of our accounts at the end of the 4th quarter, 2009.

Composite Portfolio Summary as of 12/31/2009			
	Remick Capital (Account Composite):	Wilshire 5000* (US Market Index):	Discussion:
# of holdings in the top 75%	Six	>500	Remick Accounts are highly concentrated; our top six investments represent just over 75% of total assets.
Weighted Average Earnings Yield	8.9%	2.8%	This metric measures the level of earnings of all portfolio companies divided by the current market price, measured over the trailing 12 months.
Weighted Average Dividend Yield	1.31%	1.81%	The dividend yield measures the amount of dividends and interest that is paid by the portfolio investments as a ratio of the price over the trailing 12 months.
Top Industry Weighting	Financials (71%)	Consumer Non-durables (25%)	Remick portfolios are heavily concentrated not just in individual companies but also by industry group.
Average (Mean/Median) Market Capitalization	\$47B / 7.6B	\$2.7B / \$220M	On average, the market capitalization (value) of our portfolio companies' equity is greater than the average US company. This metric is not particularly relevant from a business standpoint, but many investors like to categorize their investments by size.

* Wilshire 5000 market data obtained from <http://www.wilshire.com/Indexes/Broad/Wilshire5000/Characteristics.html>

It should be noted that the above statistics reflect only the common stock portion of Remick portfolios. This year, Remick portfolios are allocated roughly 70% in common stocks, 25% in bonds and preferred stocks, and 5% in cash (this is not a conscious choice but only a development based on what bargains appear and when). The interest and dividend income generated by the preferred stock and bond portion of our portfolios is substantial and not captured above. This was done to make the comparison to the market as apples to apples as possible.

Because our bond / preferred holdings are concentrated in only three individual companies, it would be of limited use to compare the statistics (yield, maturity, etc) of our fixed income holdings to a bond index in a similar way.

Investment Updates:

Below I have summarized some of our investments and related company news for the quarter. The performance of most of our investments this year has been fantastic and more than enough to make up for the negative performance we suffered last year.

Fairfax Financial (FRFHF) – As the 4th quarter started, our prior investment in Odyssey Re was liquidated for \$65 / share in cash as Fairfax acquired the entire company. So now we only own Fairfax, but Fairfax now owns 100% of Odyssey Re.

Following the liquidation, Fairfax also announced that it had chosen to delist its own shares from the New York Stock Exchange (NYSE) and to solely list its stock in Toronto. The net effect here is that the ticker is now changed to represent what is known as an Over the Counter (OTC) share with a five letter ticker symbol “FRFHF”. The fundamental impact of this delisting is negligible, so while I do not completely agree with Fairfax’s reasons for this action, I am comfortable with the choice. In other news the quarter was quiet for Fairfax. The shares rose modestly during the quarter.

Nicholas Financial (NICK) – Nicholas initiated an 11:10 stock split this quarter. This means that for every 10 shares you owned, you received an additional 1 share. If you owned a number of shares that were not divisible by 10, the fraction equivalent shares were deposited in your account as cash. Because every single investor in NICK receives this same ‘bonus,’ the economic impact is zero. These kinds of splits are odd, and I do not personally like them, but many managements like to do these types of things to appease certain shareholders.

On the business front NICK continues to execute well, and they are now expanding their business a little bit again, which is a positive sign. Growing while the competition is weak and people are scared is what I like to see our management teams do. The shares rose modestly this quarter.

For more detail on my thinking on Nicholas and Fairfax, I have more detailed investment reports available [here](#) on the website.

Berkshire Hathaway (BRK.b) – Shares of Berkshire were a recent addition to Remick accounts. For years I have owned a small portion of Berkshire through an investment club, and a few Remick accounts bought a small amount of Berkshire earlier this year. However, after the funds were received from the Odyssey Re buyout, I had the opportunity to make Berkshire a larger holding for us, and the price was right. Berkshire is a rare company that is a market leader in several segments, is conservatively run, has founders who have large investments in the company, and is very shareholder friendly. The company is run and owned primarily by Warren Buffett, but its subsidiaries are autonomous and very diverse in nature; it is far from a one man band.

Berkshire’s results will oscillate with the economy of the US, but I am confident that over time, the business returns that the company generates will be solid. Our purchase prices were made at a slight (15-20%) premium to Berkshire’s book value or cheaper, and I think the company is worth far more than this thanks to the strong brands it owns like GEICO, See’s Candies, Dairy Queen, Ben Bridge, and many others. While Berkshire is cheap, it is also a very, very low risk investment, which is very attractive in the current economic uncertainty.

Wells Fargo (WFCpL/WNAp) – Our investment in Wells Fargo preferred stock has continued as expected. Wells Fargo continues to make good money and has moved forward with their plan to repay the government’s TARP loan. The preferred shares that we own have continued to rise slowly and pay healthy dividends. I continue to expect an eventual exit from these preferred shares once they reach par value (which I expect to happen within the next 18 months). The shares returned over 10% this quarter.

Sears Holdings (SHLD/SSRAP/Sears Bonds) – Sears stock performed nicely this quarter and our SSRAP shares and OTC bonds paid another hefty bi-yearly dividend. No new developments have fundamentally changed this company, but the market sentiment has changed a bit. We are being rewarded for holding the shares of a hated retailer when many thought it unwise.

Emotions, Markets, and Rationality

It has been said that with the proliferation of data, market information, and the availability of vast computing power, markets will gain ever increasing efficiency. The argument goes that the world has changed and while it used to be possible to find misprice securities, this is getting less and less likely. While on the surface the idea has some merit, recent events have gone a long way toward dispelling this notion. The inherent problem with this line of reasoning is that it misses the fundamental reason why markets reach points of extreme inefficiency and mispricing - *human emotion*. Despite hyper-logical computer algorithms trading stocks, in the end it is a human endeavor. Behind every 'sophisticated' automated hedge fund are really just a few folks who want to keep their jobs. And considering every buy and sell decision is a manager who has to *explain their position to clients*.

People talk about institutional investors as if a select few big (and supposedly rational) companies control the stock market by robotically making data driven decisions. The reality is a bit different. These big institutions are made up of a large group of highly paid managers who worry first and foremost about keeping their (high paying) jobs. They don't make decisions in a vacuum as they are beholden to their clients (pension funds, corporate 401(k) plans, and retail investors) who actually own the money they manage (and pay their fees). When problems occur in markets there will always be millions of regular Americans calling their 401(k) plan administrator screaming their heads off. That 401(k) administrator is not (likely) going to risk their job by doing what they think is right; they are going to make a change to keep the angry hordes at bay (and yes, keep *their* jobs). When confronted with doing the *right* thing and obeying the hand that feeds you it is obvious which path is usually chosen.

So if in the short run regular folks do not want to own stocks anymore, stocks will go down one way or another. Whether they sell them and convert to cash, or whether they brow-beat their manager into being more conservative, or even if their manager just anticipates the brow-beating and does the selling ahead of time, the selling will take place one way or another. It does not matter whether a computer algorithm or a genius fund manager *knows* that a stock is cheap: The end decisions will be made by regular folks who are scared for their savings and by managers who do not want to lose their (lucrative) jobs.

Fear, greed, and career risk will always be around to drive markets or individual stocks in unpredictable ways completely irrespective of their underlying corporate value over short time frames. During normal times, these emotions will be muted and generally efficient pricing will occur.

The muted volatility will survive just long enough to make investors, academics and economic armchair quarterback all believe that they have the answer and taking excessive risks is the right way to riches. And it is then that we need to remember a very powerful piece of advice:

"The less prudence with which others conduct their affairs, the greater the prudence with which we should conduct our own affairs." - Warren Buffett

It is true, although ironic, that when everyone is exercising extreme prudence because of fear and uncertainty the probability of bad events happening is reduced. Prices are more rational, managements are less dishonest due to increasing scrutiny, and the investment world is a safer place. The opposite is true during times of extreme euphoria and overconfidence. Unchecked optimism breeds fraud and recklessness and sows the seeds of its own undoing.

The job of an investor is to always remember that no matter how good things are, or how bad they seem, our economy is a cyclical beast driven by economic and emotional cycles. There will always be opportunity during times of distress and extreme euphoria; the goal is only to recognize each for what it is and take the bargains the market offers when the time comes.

This all comes back to why I do my best to articulate to clients what it takes to successfully invest. It is not possible to simply hand your money to me and trust that I will succeed. I will *not always* do well, and during those times I need

clients to have the patience and understanding in my investment process to make an educated and rational choice to stick with the plan. If I can help you think clearly during the roughest times it will keep my focus on the long term and not on 'keeping my job' by trying to do something short term and stupid. Successful investing comes from the client as well as the manager. No matter how good the computer program or how fantastic the fund manager nothing can completely replace clear headed and long term thinking about investing.

As always, my money will be invested right alongside yours so you can be sure that I will work diligently to make sure our investments will be profitable ones, regardless of the market conditions. I appreciate the trust you have placed in Remick Capital as your Investment Advisor; I will work hard to make our relationship as profitable as possible.

If you ever have any questions about this report, your investments, or anything financially related in general, please do not hesitate to call me.

Sincerely,



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